

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company)	
)	
The Peoples Gas Light)	
and Coke Company)	
Petition to Review Affiliate Interactions with)	Docket Nos. 12-0273
Peoples Energy Home Services, Pursuant)	and 13-0612 (cons.)
to January 10, 2012 Rate Order)	
)	
Illinois Commerce Commission)	
On Its Own Motion)	
-vs-)	
North Shore Gas Company)	
The Peoples Gas Light and Coke Company)	
Investigation into interactions with affiliates.)	

REBUTTAL TESTIMONY
OF LINDA M. KALLAS

- 1 Q. Please state your name and business address.
- 2 A. My name is Linda M. Kallas. My business address is Integrys Business Support,
- 3 LLC, 200 East Randolph Street, Chicago, Illinois, 60601.
- 4 Q. Are you the same Linda M. Kallas who presented direct testimony in Docket No.
- 5 12-0273 and supplemental direct testimony in these consolidated dockets?
- 6 A. Yes.
- 7 Q. What is the purpose of your rebuttal testimony?
- 8 A. I am testifying on behalf of North Shore Gas Company ("North Shore") and The
- 9 Peoples Gas Light and Coke Company ("Peoples Gas") (together, the "Utilities"). The
- 10 purpose of my testimony is to respond to Illinois Commerce Commission

11 (“Commission”) Staff (“Staff”) witness David Sackett’s rebuttal testimony as it pertains to
12 his conclusions and recommendations.

13 Q. Are there any issues raised in Mr. Sackett’s testimony that the Utilities will
14 address in briefs and not in your or any other witnesses’ testimony?

15 A. Yes. As I stated in my supplemental direct testimony, the Utilities’ briefs will
16 address legal issues. Also, the Utilities are not offering additional testimony concerning
17 Peoples Energy Home Services or Peoples NGV Corporation. The fact that neither I
18 nor another Utilities witness addressed these matters does not mean the Utilities agree
19 with Mr. Sackett’s positions.

20 Q. Mr. Sackett makes several proposals concerning a proposed Rider to the
21 affiliated interest agreement that the Commission approved in Docket No. 10-0408.
22 Staff Ex. 2.0, 4:75 - 14:304. Do the Utilities agree to the concept of a Rider?

23 A. The Utilities will not oppose a Rider to Appendix C of the agreement that the
24 Commission approved in Docket No. 10-0408, which Mr. Sackett called the Master AIA.
25 The Utilities largely, but not entirely, would not oppose the proposed Rider included with
26 Mr. Sackett’s testimony, and, as I discuss further, a version that Staff provided in
27 response to the Utilities’ data request. Attached to my rebuttal testimony as NS-PGL
28 Ex. 6.1 is a draft Rider that the Utilities developed, revision-market against Mr. Sackett’s
29 rebuttal testimony proposal, and included in a data request to Staff. NS-PGL Ex. 6.2 is
30 Mr. Sackett’s response to that data request. Based on Mr. Sackett’s response, attached
31 to my rebuttal testimony as NS-PGL Ex. 6.3 is the Utilities’ proposed Rider. In my
32 rebuttal testimony, I first explain the rationale for the version of the Rider included in the
33 data request and then respond to Mr. Sackett’s revisions to that Rider.

34 **NS-PGL Ex. 6.1**

35 Q. What is NS-PGL Ex. 6.1?

36 A. NS-PGL Ex. 6.1 is a Rider to the Master AIA that the Utilities developed by
37 revision marking Attachment A of Mr. Sackett's rebuttal testimony. The Utilities then
38 included this document in a data request to Staff.

39 Q. Please summarize the major elements of NS-PGL Ex. 6.1.

40 A. While not identical to Mr. Sackett's proposal, the Utilities considered the revisions
41 shown in NS-PGL Ex. 6.1 essential for the Master AIA to operate effectively and still
42 address what we think are Staff witness Mr. Sackett's concerns -- the Utilities'
43 interactions with companies in the holding company system that operate in competitive
44 markets. I will discuss the differences in more detail later in my testimony.

45 Under our and Mr. Sackett's proposals, other companies in the Integrys Energy
46 Group, Inc. ("Integrys") holding company system -- both state-regulated utilities (called
47 "Regulated Parties" in the Master AIA) and other subsidiaries (the "Non-Regulated
48 Parties") -- would continue to operate under the Master AIA. The Rider affects the other
49 Integrys companies only when they interact with North Shore or Peoples Gas. As to the
50 Utilities, the Rider revises Appendix C to define each service in detail and add
51 limitations not applicable to other Integrys companies.

52 Under our and Mr. Sackett's proposals, other than adding specificity in Rider
53 Section C.I of Appendix C, it does not affect services to and from Regulated Parties.

54 Under our and Mr. Sackett's proposals, Rider Section C.II defines a limited range
55 of services to and from "Non-Utility Affiliates," and a new Rider Section C.V will list
56 those entities. Our proposal, however, does not restrict services to Integrys Business

Support, LLC (“IBS”) or services to and from Integrys. We also expand the list of “Non-Utility Affiliates” to include certain other Non-Regulated Parties.

We largely agree with Mr. Sackett’s proposed language for Rider Section C.III, which are cost allocation provisions and a new section for asset transfers. However, we do not agree with the restrictions on the parties falling under this Section. We also propose reformatting the section to make clear that the asset transfer section applies to a smaller group of companies than the other three items.

We largely agree with Mr. Sackett’s two new proposed audit requirements in Rider Section C.VI. However, we disagree that the audit should both list and review all transactions. An audit is designed to review a sample of transactions.

The Utilities also propose some editorial changes.

Q. What changes do the Utilities propose in the prefatory language of the Rider, *i.e.*, prior to Rider Section C.I?

A First, the Utilities add some specific references to “Rider.” Because other Integrys companies are parties to the Master AIA and Appendix C is part of that agreement, it is appropriate that these new terms and conditions, which apply only to North Shore and Peoples Gas, be clearly described in terms of the Rider and not potentially confused with Appendix C that applies to Integrys’ other companies. Second, in the context of an expedited process to add or change Rider Section C.I services, the Utilities propose to change “may effectuate” to “will take effect” to have a definite effective date. The Utilities consider the other changes editorial (*e.g.*, referring to “Act” and not “Public Utilities Act” after that term was earlier defined; and numbering certain paragraphs so that a reference to “this paragraph” is clearer).

80 Q. Do the Utilities accept that the expedited approval process applies only to the
81 Rider Section C.I services?

82 A. Yes. The Utilities note Staff's proposed limitation may be detrimental to the
83 Utilities by preventing them from receiving a service from a non-utility provider, who
84 must provide it at the lower of cost or market. However, the Utilities will not oppose
85 Staff's preference to restrict the expedited process, nor will they propose adding
86 services to Rider Section C.II in this proceeding.

87 Q. Do the Utilities have any proposed changes to Rider Section C.I?

88 A. No.

89 Q. Please describe the proposed changes to Rider Section C.II.

90 A. It is unclear if this section would restrict services to and from IBS and the holding
91 company. If the omission of IBS and Integrys from the list of "Non-Utility Affiliates" has
92 the effect of not defining what services, if any, to and from those entities are covered by
93 the Rider, then the Utilities oppose the restriction. Specifically, the Utilities do not agree
94 with limiting the services they may provide to IBS. For example, Section C.II of the
95 Master AIA includes warehousing services, and Staff's Rider language would not allow
96 Peoples Gas to provide warehousing as an incidental service to IBS. The Utilities do
97 not understand Staff's testimony in this proceeding to have found the Utilities' services
98 to IBS problematic. For that reason, the Utilities propose that Appendix C, Section C.II,
99 without the limitations in the Rider, apply to North Shore's and Peoples Gas' services to
100 IBS. The Utilities also propose that services to and from Integrys not be subject to the
101 Rider. Finally, the Utilities propose changing the list of Non-Utility Affiliates, which I
102 describe below. Notably, the Utilities propose no changes to the list of services.

103 Q. Do the Utilities have any proposed changes to Rider Section C.III?

104 A. Yes. First, the Utilities do not understand the rationale for the listed companies.

105 For example, the list includes "Regulated Party" and "Wisconsin Public Service

106 Corporation," but Wisconsin Public Service Corporation is a Regulated Party. The list

107 includes Integrys Transportation Fuels, but none of the wholly-owned subsidiaries of

108 Integrys Transportation Fuels, LLC. It is not apparent why some companies are

109 included and other excluded.

110 Second and more importantly, this section is not comprised of services. It is

111 circumstances under which costs may be allocated among companies. For example, if

112 a company pays an invoice that was for goods or services that benefitted more than one

113 company, the company paying the invoice allocates costs to the other beneficiaries.

114 Benefit transfers when an employee moves from one company to another is a second

115 example. The section appropriately would include all companies, as costs may be

116 allocated throughout the organization.

117 Finally, with respect to asset transfers to IBS, the Utilities propose to clarify that

118 the new obligation allows all transfers to occur but imposes tracking obligations only on

119 individual assets with an original cost of \$100,000 or more. For example, the Utilities

120 may transfer computers or filing cabinets to IBS and the tracking obligation would not

121 apply (assuming that no computer or filing cabinet would have an original cost of

122 \$100,000 or more). Also, the obligation does not apply to fully depreciated assets. Mr.

123 Sackett's Rider does refer only to disposition "during the useful service life." The

124 Utilities' added language is consistent with that qualification.

125 Q. Do the Utilities have any proposed changes to Rider Section C.IV?

126 A. No.

127 Q. Please describe the proposed changes to Rider Section C.V.

128 A. The Utilities do not understand the rationale for the listed companies, and the
 129 proposed list of Non-Utility Affiliates is too narrow. For example, Peoples Gas has a
 130 wholly-owned subsidiary called Peoples Gas Neighborhood Development Corporation.
 131 It is unclear why this entity is not listed. Similarly, the proposal includes Peoples Energy
 132 Ventures but not its wholly-owned subsidiaries. WPS Power Development LLC is what
 133 remains after Integrys' sale of Integrys Energy Services, Inc. and this company owns, in
 134 whole or part, several companies with investments in solar businesses. The Utilities
 135 propose that the definition of Non-Utility Affiliates be more comprehensive.

136 Q. Please describe the proposed changes to Rider Section C.VI.

137 A. Mr. Sackett proposed two new items for the required internal audit. The Utilities
 138 do not oppose the items, but the description of the audit requirement is inconsistent with
 139 how audits are conducted. In particular, the proposed language would require a review
 140 of all transactions under Rider Sections C.II and C.III. An audit is typically a review of a
 141 sample of transactions. As Section 4.3 of the Master AIA states, the audit is "testing
 142 compliance," and testing is accomplished through a sample of transactions. Aside from
 143 being inconsistent with standards for conducting audits, a requirement to review all
 144 transactions would be burdensome and demand extensive resources.

145 **NS-PGL Ex. 6.2**

146 Q. What is NS-PGL Ex. 6.2?

147 A. NS-PGL Ex. 6.2 is Staff witness Mr. Sackett's response to Data Request NS-PGL
 148 1.01. The response includes a narrative explanation of comments on the Utilities'

proposal (which I am including as NS-PGL Ex. 6.1 and described above) and counterproposals in some instances.

Q. Do the Utilities agree with Mr. Sackett's counterproposals?

A. In many instances, the Utilities accept Mr. Sackett's counterproposals, but I will propose alternative language in some cases and have clarifying comments in other cases. In my discussion of NS-PGL Ex. 6.3, I address each of Mr. Sackett's proposals.

NS-PGL Ex. 6.3

Q. What is NS-PGL Ex. 6.3?

A. NS-PGL Ex. 6.3 is the Utilities' proposed Rider to the Master AIA. It is a revision-marked version of Mr. Sackett's response to Data Request NS-PGL 1.01.

Q. Is Mr. Sackett's change to the prefatory paragraph of the Rider acceptable (NS-PGL Ex. 6.2, page 1)?

A. Yes. Mr. Sackett added the word "only" to the phrase "may *only* provide to or receive from" other parties the services in the Rider. Based on Mr. Sackett's additions to Rider Section C.II, adding "only" is acceptable. The effect is that the Rider, rather than Appendix C of the Master AIA, will be the document describing "Services" for North Shore and Peoples Gas.

Q. Are Mr. Sackett's revisions to Rider Section C.II.A acceptable (NS-PGL Ex. 6.2, page 7)?

A. In part. Mr. Sackett included language from the Master AIA Appendix C in the Rider. That is acceptable to the Utilities in lieu of referencing the Appendix and consistent with his addition of the word "only" in the prefatory portion of the Rider. However, the Utilities propose that Rider Section C.II.A, rather than list Integrys and

IBS, apply to all the Non-Regulated Parties that are not Non-Utility Affiliates. Under the Master AIA, Rider Section C.II applies to Non-Regulated Parties. With the Rider, the structure is that C.II.B applies to the Non-Utility Affiliates. Accordingly, the Utilities recommend that Rider Section C.II.A be defined to capture all the other Non-Regulated Parties without listing all of them. This makes Rider Section C.II comprehensive and symmetrical. It addresses all Non-Regulated Parties, which is the basic structure of Appendix Section C.II of the Master AIA, but divides the class of Non-Regulated Parties into two groups -- the Non-Utility Affiliates, which are covered by subsection B, and all other Non-Regulated Parties, which are covered by subsection A.

Q. Rider Section C.II of the Master AIA includes "Incidental Services." Mr. Sackett's proposal adds references to "Incidental Services" in both subsections A and B (NS-PGL Ex. 6.2, pages 7-8). Please comment.

A. The Utilities agree that Rider Section C.II is intended to capture "Incidental Services." With respect to the Operational Support in Rider Section C.II.B.2, I emphasize that, by definition, this is a "day-to-day" operational service. It is "incidental" in the context of Peoples Gas' operational and maintenance expenses. However, the word "incidental" in this context ought not to be construed in a way that ignores the "day-to-day" nature of the service. Peoples Gas will receive monthly invoices for this service. Relative to Peoples Gas' total expenses, the amount will be small, but the service is not incidental in the sense of being infrequent or non-routine. If this is not Staff's understanding of the term "Incidental Service" in this context, then Peoples Gas does not agree with the use of the term as it applies in Rider Section C.II.B.2.

194 Q. Mr. Sackett modified the asset transfer language in Rider Section C.III.B (NS-
195 PGL Ex. 6.2, pages 8-9). Do you have any proposed changes to the section?

196 A. Yes. I propose to simplify the section. If IBS wishes to dispose of an asset
197 subject to this provision, *i.e.*, an asset transferred by North Shore or Peoples Gas in
198 Docket No. 14-0500 or after the effective date of the Rider that had an original cost
199 greater than \$100,000, IBS must return the asset to the transferring utility (North Shore
200 or Peoples Gas, as applicable). This avoids the exercise of ascertaining the “fair market
201 value” of the asset. In all cases for this class of assets, IBS will return the asset to
202 North Shore and Peoples Gas if it wishes to dispose of it. Also, it is the Utilities’
203 understanding that this Rider will be the Commission authority to transfer the asset back
204 to North Shore or Peoples Gas at net book value. In other words, this affiliate
205 transaction will not require a filing to obtain Commission approval when it occurs. NS-
206 PGL Ex. 6.3 shows the Utilities’ proposed revisions.

207 Q. Mr. Sackett significantly revised the internal audit requirement in Rider Section
208 C.VI (NS-PGL Ex. 6.2, page 9). Do the Utilities accept these changes?

209 A. The Utilities are continuing to review these proposals and, at this time, have
210 concerns. The Utilities agree that Mr. Sackett has reduced the burden of the proposed
211 requirements. However, we have three concerns that are reflected in NS-PGL Ex. 6.3.

212 First, with respect the review of transactions under Rider Section C.II, the Utilities
213 are unsure of the intent of the proposed test that the services “were indeed Incidental.”
214 If the intended test is that the services in the aggregate are “incidental,” as I discuss that
215 term above, then I agree. If the audit, by reviewing all, or even a sample of,
216 transactions, is somehow testing that each is “Incidental,” the Utilities question the value

of that test. The Utilities have proposed alternative language that applies the “Incidental” test to the aggregate of services.

Second, for Rider Section C.II.B.2, Peoples Gas does not agree that an audit of all, rather than a sample of, transactions is appropriate. As I stated above, these operational support services to Peoples Gas’ compressed natural gas fueling station located at its Division Street shop are day-to-day services. Over the course of a year, hundreds of individual transactions could occur, many of which are expected to be of a routine and recurring nature. So, in addition to the potentially large number of transactions, albeit for a small dollar amount, the day-to-day nature of operations and maintenance work means that a sample is an appropriate way to review the transactions because similar items will exist from invoice to invoice. This proposed departure from typical audit practice of reviewing a sample of transactions would be costly and time-consuming to a degree that is disproportionate to the value of the transactions at issue.

Third, with respect to the proposal that the internal audit review all Rider Section C.III transactions as they apply to Non-Regulated Parties (Rider Section C.VI.c), the Utilities remain concerned that the cost -- in dollars and time -- of this departure from typical audit practice of reviewing a sample of transactions would be disproportionate to the value of the transactions at issue. The Utilities assume this requirement would not apply to IBS transactions to the Utilities, which would occur under the agreement approved in Docket No. 07-0361, but, even excluding those transactions, the Utilities are unable, based on their current review of the proposal, to agree. In NS-PGL Ex. 6.3, we offer an alternative proposal.

240 Q. Does this conclude your rebuttal testimony?

241 A. Yes.